

RICHARD BLUMENTHAL
ATTORNEY GENERAL



One Central Park Plaza
New Britain, CT 06051
(203) 827-2620

Office of The Attorney General
State of Connecticut

January 11, 1995

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Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

Re: PR Docket No. 94-106, Motion for Leave to Accept Supplemental Comments

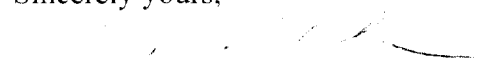
Dear Mr. Caton:

Please find enclosed an original and four copies of the enclosed Supplemental Comments in support of the Petition of the Connecticut Department of Public Utility Control (the "Department") to Retain Regulatory Control of Wholesale Providers in Connecticut dated August 8, 1994 (the "Petition").

Although the comment period in this docket has passed, good cause exists to permit the filing of the Supplemental Comments. The Supplemental Comments briefly identify certain developments affecting the wholesale cellular market in Connecticut and arguments that have been made by parties opposing the Petition. Therefore, acceptance of the Supplemental Comments will assist in the Commission's full and complete deliberation of the issues presented.

Should there be any questions on this matter, please contact the undersigned.

Sincerely yours,


Mark F. Kohler
Assistant Attorney General

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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IN THE MATTER OF
PETITION OF THE CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY
CONTROL TO RETAIN REGULATORY
CONTROL OF THE RATES OF WHOLESALE
CELLULAR SERVICE PROVIDERS IN
CONNECTICUT

: PR Docket No. 94-106
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SUPPLEMENTAL COMMENTS OF THE CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY CONTROL

The Connecticut Department of Public Utility Control (the "Department") respectfully submits the following Supplemental Comments in support of its Petition to Retain Regulatory Control of the Rates of Wholesale Cellular Service Providers in Connecticut dated August 8, 1994 (the "Petition"). These Supplemental Comments are prompted by recent developments regarding Nextel Communications, Inc. that have a bearing on the positions of all the parties in this matter and that the Department wishes to bring to the Commission's attention.


Opponents of the Petition have made much of the projected entry of Nextel Communications, Inc. as evidence of the competitive nature of the commercial mobile radio services market in Connecticut. The Department, in conducting its hearings on whether to request continued regulatory authority over cellular rates in Connecticut, discounted any immediate impact Nextel may have on the Connecticut market. See Petition, at 4; Department's Decision in Docket No. 94-03-27, DPUC Investigation into the Connecticut Cellular Service Market and the Status of Competition, at 21 (Aug. 8, 1994) (Exh. A to Petition).

The Department's rejection of the highly speculative nature of the impact of Nextel's planned operations has been borne out. As illustrated by recent news reports, see Naik, For Nextel, '94 Was Best of Times and Worst of Times, Wall St. J., p.14 (Jan. 3, 1995) (attached as Exh. A. hereto), Nextel has significantly retreated from earlier plans. Thus, reliance on Nextel's entry into the market as evidence of the competitive nature of the Connecticut market is unfounded.

The evidence presented to the Commission support the limited continuance of regulatory authority requested by the Department. The recent developments relating to Nextel only offer further support for the Department's Petition.

CONNECTICUT DEPARTMENT OF PUBLIC
UTILITY CONTROL

By Its Attorney
RICHARD BLUMENTHAL
ATTORNEY GENERAL OF CONNECTICUT

By: 
Mark F. Kohler
Assistant Attorney General
One Central Park Plaza
New Britain, CT 06051
(203) 827-2620

CERTIFICATION

This certifies that the foregoing has been served by first-class mail this 11th day of January, 1994 on the following:

Jean L. Kiddoo
Swidler & Berlin
Suite 300
3000 K St., N.W.
Washington, D.C. 20007-5116

Phillip Rosario
Assistant Attorney General
State of Connecticut
One Central Park Plaza
New Britain, CT 06051

Michael F. Altshul
CTIA
Suite 200
1250 Connecticut Ave., N.W.
Washington, D.C. 20036

Judith St. Ledger-Roty
Reed Smith Shaw & McClay
1200 18th St., N.W.
Washington, D.C. 20036

Thomas Gutierrez
Lukas, McGowan, Nace & Gutierrez
111 19th St., N.W.
Suite 1200
Washington, D.C. 20036

Joseph Mazarella
Connecticut Telephone &
Communication Systems, Inc.
1269 South Broad St.
Wallingford, CT 06492

Valerie J. Bryan
Office of Consumer Counsel
State of Connecticut
136 Main St., Suite 501
New Britain, CT 06051-7760

Mark J. Golden
Acting President
Personal Communications Industry Assoc.
Suite 1100
1019 Nineteenth St., N.W.
Washington, D.C. 20036

Joel H. Levy
Cohn and Marks
Suite 600
1333 New Hampshire Ave., N.W.
Washington, D.C. 20036

Robert B. Kelly
Kelly & Povich
Suite 300
1101 Thirtieth St., N.W.
Washington, D.C. 20007

Leonard J. Kennedy
Dow, Lohnes & Albertson
1255 23rd St., N.W.
Washington, D.C. 20037


Russell H. Fox
Gardner, Carton & Douglas
1301 K St., N.W.
Suite 900, East Tower
Washington, D.C. 20005

James T. Scott
Bell Atlantic Metro Mobile Companies
Crowell & Moring
1001 Pennsylvania Ave.
Washington, D.C. 20554

Scott K. Morris
McCaw Cellular Communications, Inc.
5400 Carillon Point
Kirkland, Washington 98033

Douglas B. McFadden
McFadden, Evans & Sill
1627 Eye St., N.W.
Suite 810
Washington, D.C. 20006

Howard J. Symons
Mintz, Levin, Cohn, Ferris, Glovsky &
Popeo, P.C.
701 Pennsylvania Ave.
Suite 900
Washington, D.C. 20004



Mark F. Kohler
Assistant Attorney General

EXHIBIT A

CORPORATE FOCUS

For Nextel, '94 Was Best of Times and Worst of Times

Shares Soared on Promise of Cellular Network, Then the Bubble Burst

By GAUTAM NAIK

Staff Reporter of THE WALL STREET JOURNAL

Morgan E. O'Brien sometimes indulges in an unlikely pastime, a plunge on a roller coaster. The recent fortunes of his company, Nextel Communications Inc., may have given him his most dizzying ride yet.

Tiny, brash Nextel rose to prominence in the past year by using an ever-soaring stock price to acquire legions of radio-dispatch licenses, tapping Wall Street's hunger for wireless plays by tirelessly promoting itself as a someday rival of cellular giants.

But Nextel shares have plunged about 70% from their 52-week high, wiping out \$2.5 billion in market value in the past nine months. The company has failed to find a backer since MCI Communications Corp. bailed out of a planned \$1.36 billion investment in August. Technical glitches continue to snarl its new phone service in California. Lacking cash, Nextel has also shelved plans to bid for federal licenses to provide new "personal communications services."

Company Lowers Sights

Now Nextel has all but abandoned ambitions to become a cellular titan any time soon. It will get back to basics, jazzing up the dispatch services, which will provide \$200 million in annual revenue when all of its transactions close. The company will also have a captive base of 750,000 old-line dispatch customers, including taxi drivers, contractors and plumbers.

Nextel must persuade customers who spend only about \$20 a month to spend as much as three times that sum to get a new array of fancier features, such as wireless messaging and cellular phone service. That would help Nextel close an \$800 million gap in funding a \$2.5 billion overhaul of its dispatch systems. The company, which has annual cash flow of \$29 million, is binding some 400 systems into a national wireless network, and in three years will face \$150 million in annual interest payments on \$1.7 billion in junk-bond debt.

Customers for Nextel's new offerings

may not be there. Most of its current customers "aren't interested in the bells and whistles," contends Robert Janssen, president of San Diego, Calif., dispatcher Cardiff Mobile Communications Inc. His clients lease only five to 10 radios and pay monthly fees of \$12 to \$14 a unit. "They are primarily price-motivated," he says. And many big corporations already run their own networks.

Nextel won't find the \$800 million it needs from the equity and debt markets. And its major patron Motorola Corp. may be running out of patience. Motorola, which intends to equip the network, has already offered \$685 million in vendor financing, after agreeing last summer to

tem is a replacement for the national telephone infrastructure." A late 1993 forecast by Merrill Lynch analyst Linda Runyon suggested that Nextel could sign up more than 400,000 new wireless customers in 1995 alone and possibly triple that in four years. Nextel today has 15,000 digital subscribers.

Such hype inflated Nextel's stock price even as the company floated millions of new shares to fund its buying binge, and led to the stock's crash when it became painfully clear that the cellular ambitions had been oversold. At the stock's 52-week high of \$46.75 in March, nine Wall Street analysts had healthy "buy" recommendations on Nextel; even by June, when the

giant pursuing "glove-compartment" consumers. Instead, it has always aimed its new cellular features at "the mobile work force" now using dispatch. As for the national digital network, hardly useful to a local plumber, Mr. O'Brien now says it would lure corporate accounts.

Those assertions stun some analysts. "Morgan O'Brien oversold Nextel, he drove way beyond his headlights," says Jan Klein of Dean Witter Reynolds Inc., who initiated coverage of Nextel on Dec. 22 with a "sell" rating. Another analyst privately asserts, "Nextel was never described as a big corporate-fleet kind of company. That's disingenuous."

If Nextel's cellular dreams are fading, what is its value as a pure dispatcher? Morgan Stanley's Ms. Comfort estimates \$6 to \$7 a share. With the stock in the \$14 range, investors seem to be placing a premium of more than \$7 a share on Nextel's cellular prospects. At Nextel's peak, the premium was almost \$40 a share.

Beloved by Short Sellers

Even the smaller premium could be risky. In a Dec. 27 letter to investors, Nextel disclosed that its Motorola system is taking "much longer than expected." Nextel has the largest short position of all Nasdaq stocks, suggesting investor bearishness. By mid-December, investors had sold some 12 million Nextel shares short, up almost two million shares in a month.

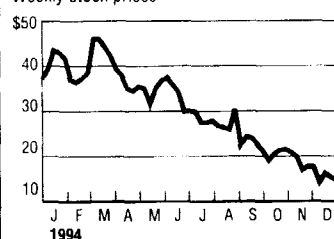
As a pure dispatch player, "there's no question Nextel would be the premier state-of-the-art company in the nation," says Frederick Moran of Salomon Brothers, a consistent bear on Nextel. Few observers, however, believe Mr. O'Brien will be content in the backwaters of the dispatch market. Nextel says it has just turned on its digital networks in Chicago and New York.

But Alan Shark, president of the American Mobile Telecommunications Association, a dispatch industry group that Nextel belongs to, says Nextel "would have been better off not shooting for the moon and comparing themselves with the cellular industry in the first place."

Fading Fortunes

Nextel's Stock Plunges...

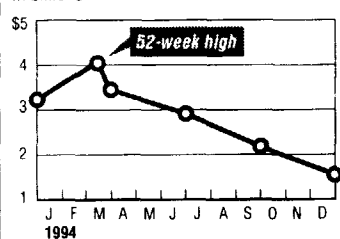
Weekly stock prices



Sources: Baseline, Company reports

Eroding Market Value

In billions



sell all of its dispatch systems to Nextel for stock valued at \$1.7 billion. Since then the value of Motorola's Nextel stake has fallen by about \$800 million, and Motorola's pact with Nextel leaves it no escape clause.

Wall Street fell in love with Nextel as the little-known dispatch company gathered up hundreds of scratchy systems at cheap prices and tried to multiply their value by turning them into a new national phone system.

This compelling vision was largely propagated by Nextel and its underwriters at Merrill Lynch & Co. Nextel's Mr. O'Brien, fair-haired and silver-tongued, unabashedly proclaimed, "Our Nextel sys-

tem had fallen by more than one-third, eight analysts were still pushing a "buy."

"Every analyst was so positive on Nextel. They were dead wrong," says Scott Vergin, former fund manager of Lutheran Brotherhood Fund, which acquired 250,000 Nextel shares at \$40 a share and finally sold at about \$30, resulting in a loss of \$2.5 million. "It's been very humbling," says Stephanie Comfort, a Morgan Stanley & Co. analyst who has maintained a "buy" rating on Nextel from the moment it went public three years ago through the stock's rise and plunge.

Mr. O'Brien counters that Nextel had never portrayed itself as the next cellular